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India

Coffee Annual

2014

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Report Highlights:

India's 2014/15 coffee production is forecast at 5.1 million 60 kg bags, up slightly from the revised 2013/14 estimate. Exports are also forecast at 5.1 million 60 kg bags, while imports for processing and re-export are again expected be around 1.0 million bags. Domestic consumption is largely unchanged. While India has seen considerable growth in the number of cafés and other coffee outlets in recent years, the pace of expansion appears to have slowed of late. At 60 grams, annual per capita consumption is quite low, especially for a coffee producing country. Until the consumption of coffee at home increases, India's coffee industry is expected to continue focusing its marketing efforts on exports.

Executive Summary:

Coffee, Green India	2012/2013		2013/2014		2014/2015	
	Market Year Begin: Oct 2012		Market Year Begin: Oct 2013		Market Year Begin: Oct 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	411	415	410	411		410
Area Harvested	370	376	370	370		370
Bearing Trees	568	568	568	568		568
Non-Bearing Trees	64	64	64	64		64
Total Tree Population	632	632	632	632		632
Beginning Stocks	1,421	1,473	1,527	2,000		1,830
Arabica Production	1,643	1,643	1,650	1,667		1,617
Robusta Production	3,660	3,660	3,475	3,333		3,513
Other Production	0	0	0	0		0
Total Production	5,303	5,303	5,125	5,000		5,130
Bean Imports	1,175	1,130	925	1,000		1,018
Roast & Ground Imports	3	3	2	2		2
Soluble Imports	30	31	15	28		20
Total Imports	1,208	1,164	942	1,030		1,040
Total Supply	7,932	7,940	7,594	8,030		8,000
Bean Exports	3,750	3,406	3,675	3,630		3,660
Rst-Grnd Exp.	5	3	5	3		3
Soluble Exports	1,500	1,431	1,475	1,367		1,437
Total Exports	5,255	4,840	5,155	5,000		5,100
Rst,Ground Dom. Consum	800	750	770	770		750
Soluble Dom. Cons.	350	350	430	430		430
Domestic Use	1,150	1,100	1,200	1,200		1,180
Ending Stocks	1,527	2,000	1,239	1,830		1,720
Total Distribution	7,932	7,940	7,594	8,030		8,000

1000 HA, MILLION TREES, 1000 60 KG BAGS

Commodities:

Coffee, Green

Production:

Marketing year (MY) 2014/15 (Oct/Sep) coffee production is forecast at 5.1 million 60 kg bags.

The 2014/15 crop is expected to be slightly higher than the revised 2013/14 production estimate on account of higher Robusta crop production as the crop enters its 'on-year' in the production cycle.

Robusta is the more popular variety and constitutes 70 percent of the coffee production in India. The Arabica crop is entering the 'off-year' of the biennial production cycle and is expected to bear a lower fruit than last year. Traditionally, the harvest of Arabica takes place from November to January, while for Robusta harvest is December to February.

Coffee production in marketing year (MY) 2013/14 (Oct/Sep) is estimated 100,000 60 kg bags lower at 5.0 million 60 kg bags, well below the previous Coffee Board pre and post monsoon estimates of 5.8 and 5.2 million 60 kg bags respectively. Prolonged dry weather from mid-March harmed plant development and an unusually wet 2013 monsoon with continuous rains for more than 60 days led to berry droppings, defoliation, and the emergence of certain fungal diseases. Government of India rainfall data indicates that rainfall amounts in southern interior Karnataka, which accounts for 70 percent of total production, were 25 percent higher than normal during the monsoon season. These heavy rains in key growing regions appear to have reduced yields of the Robusta crop in particular. Trade sources indicate that the quality of beans that were harvested was good and there were no issues in marketing the crop. The Coffee Board's final estimate for the harvested crop will be released at the end of May.

Area

India accounts for about four percent of world coffee production and exports. Production is mostly confined to the southern states of Karnataka, Kerala, and Tamil Nadu which account for 85 percent of planted area. The non-traditional lower-yielding areas of Andhra Pradesh, Orissa, and northeastern have seen a marginal increase in area, but planted area in these states is limited. With coffee estates in close proximity to protected forest reserves, there is limited opportunity for further area expansion. Growers are gradually shifting towards replanting to replace their aging plantations at an annual rate of 2-3 percent per year which leaves a difference of approximately 40,000 ha between harvested and planted area. Area harvested and plant inventory estimates remain unchanged.

Inputs

Recent increases in the cost of farm inputs, along with the elimination of subsidies for fertilizer and diesel, have increased production costs for growers. Labor costs, which account for more than 50 percent of the cost of cultivation, continue to escalate. With increasing off-farm employment

opportunities, coffee planters have started experiencing shortages of skilled labor. Because of uneven terrain and small and fragmented growing areas, the adoption of mechanization has been slow and limited to a few coffee plantations. According to Coffee Board of India statistics, the general daily wage rate in state of Karnataka increased by 38 percent from Rs. 142 (US\$2.36) to Rs. 196 (US\$3.26) per day between January to October last year.

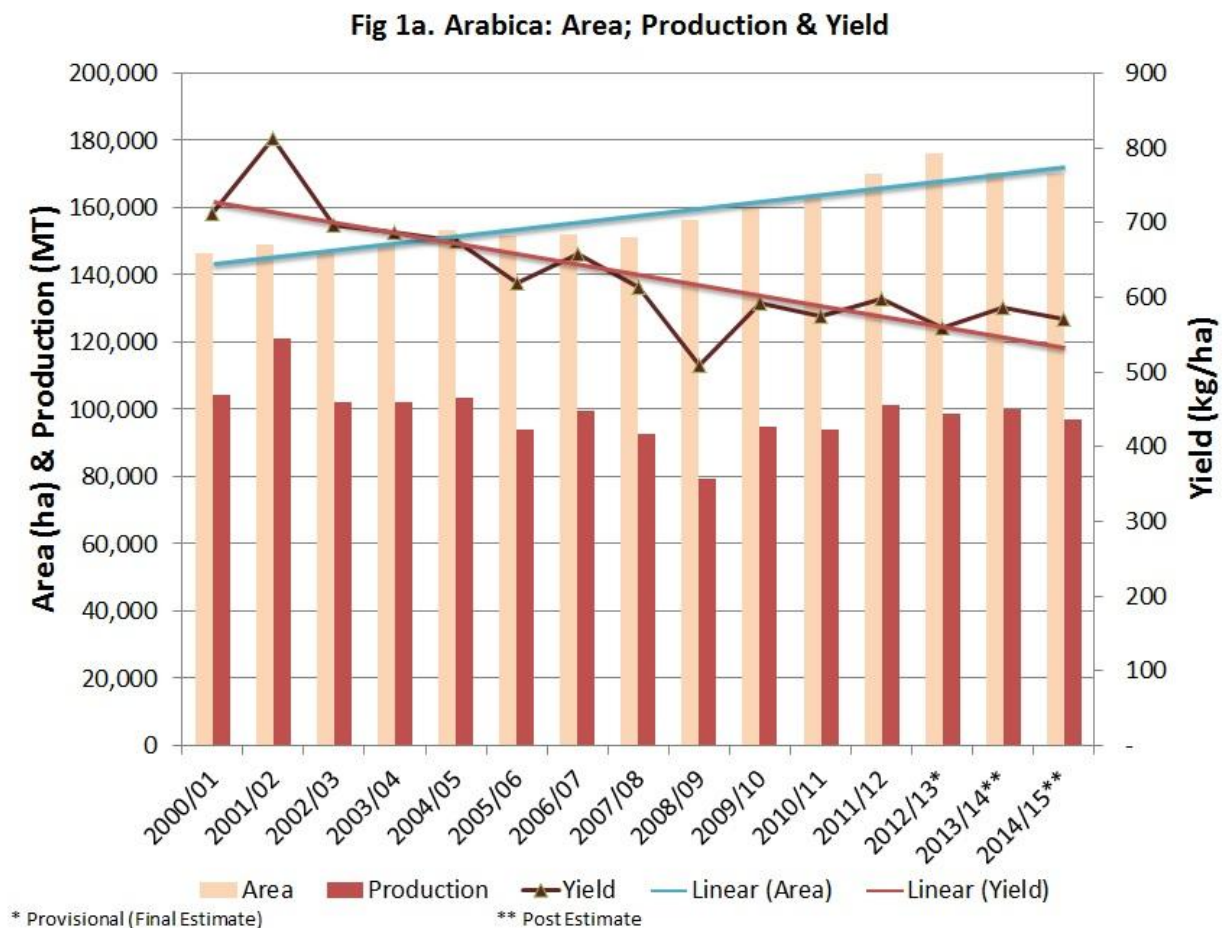
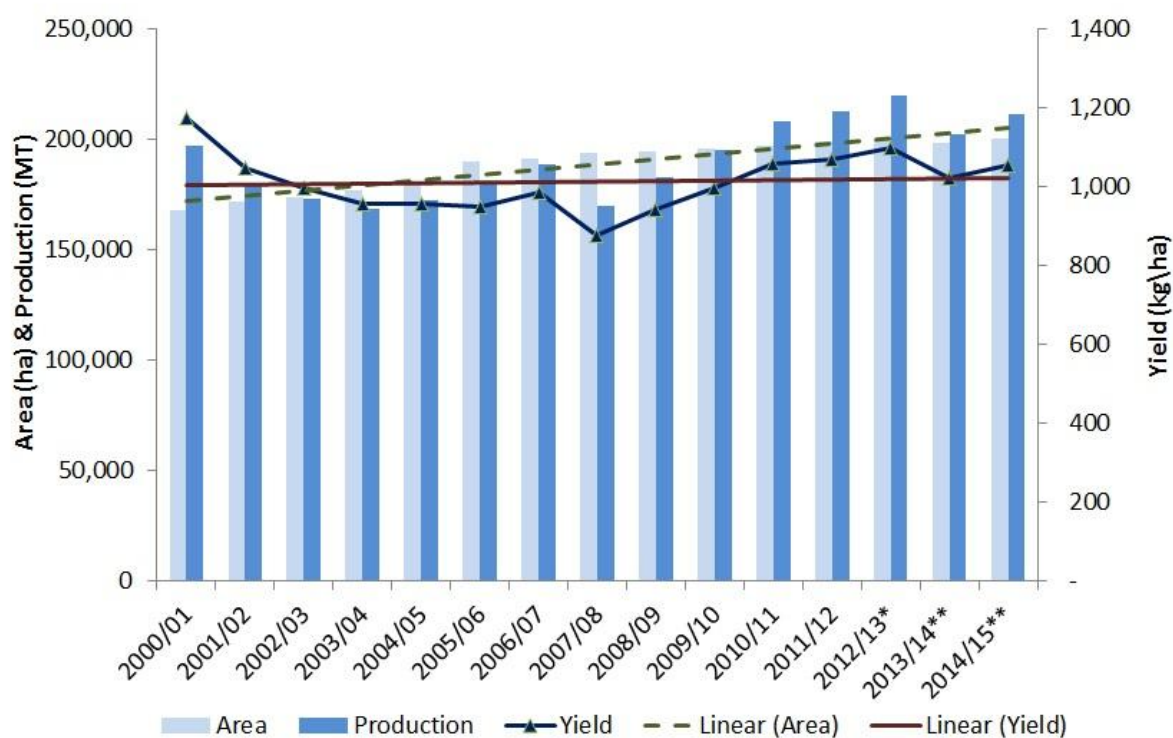


Fig 1b. Robusta: Area, Production and Yield



* Provisional (Final estimate)

** Post Estimate

Indian Coffee Marketing System

Common marketing practices include selling to exporters through an agent, storing at a curing plant before selling, selling at auctions and exporting directly. Small holders typically sell their parchment coffee (or dry cherry) to exporters through export agents and consolidators. The agent takes the coffee beans to the curing factory, where they are checked for quality against the standards of the destination country. Storing the coffee at a curing plant allows the coffee grower to retain ownership of the coffee

before selling it in order to take advantage of price movements. Larger producers typically sell at auctions organized by the Indian Coffee Traders' Association or export directly.

Consumption:

The bulk of India's coffee production is exported and the domestic industry focuses much of its marketing effort on export promotion. There are signs that the popularity of coffee is increasing with the spread of both foreign and home-grown coffee shops and restaurant chains. However, exports continue to siphon large amounts of coffee away from the domestic market and consumption estimates are largely unchanged in recent years. The instant/soluble coffee segment is almost entirely branded and packaged, and is dominated by two multinationals, accounting for almost 90 percent of the total soluble coffee market. While there is significant coffee consumption in India, for the purposes of this report, coffee consumption is effectively a residual of production less exports with some adjustment for estimated stock levels. Consequently, while coffee consumption appears to be growing moderately, it can be difficult to establish a repeatable trend given the industry emphasis on exports, especially when coffee prices and export demand are high. One reason for the large variation in some industry consumption estimates is the widespread use of chicory in the domestic market. Many popular instant coffees contain 20-40 percent chicory.

Tea continues to be the hot drink of choice for many Indian consumers. Consumers in southern India, where much of India's coffee is produced, consume more coffee than in other areas of the country. While there is a small but growing café culture, nearly all Indian coffee is consumed at home or in traditional street stalls as instant coffee. There is very little home use of ground coffee. Over the longer term, India coffee consumption is not likely to increase significantly until the practice of home consumption becomes more common. India's annual per capita coffee consumption is just 60 grams, slightly higher than China, but quite low when compared to consumption levels in most other countries.

Table 1: Retail Prices of Coffee Beans in Major Coffee Consuming Centers, Rs. per Kilo 1

	Bangalore		Chennai		Hyderabad	
Year	Arabica	Robusta	Arabica	Robusta	Arabica	Robusta
Average 2007	137	87	170	91	150	89
Average 2008	150	114	157	118	164	127
Average 2009	210	105	215	109	229	119
Average 2010	217	98	225	104	233	110
Average 2011	297	131	300	134	314	141
Average 2012	247	156	298	148	309	170
Average 2013	199	157	229	182	250	190
Average 2014*	228	148	258	196	253	NA

1\ Exchange Rate equals Rs. 59.54 per dollar as of May 13, 2014

*Average of data through February 2014

(Rs/kg of clean coffee beans of Arabic Plantation A & Robusta Cherry AB)

Source: Coffee Board of India

Growing Coffee Café Culture in India

Hundreds of western-influenced coffee shops have emerged across India's major and smaller "second tier" cities over the past decade. Coffee now competes against the once dominant tea in these cafes, especially among younger consumers. A growing willingness to consume food and drink outside the home and increasing disposable income has helped to fuel growth in recent years, but the pace of expansion appears to have slowed in recent years. A summary of some of the major chains follows.

Barista Lavazza: The Barista Lavazza is a chain of espresso coffee bars that operates around 160 outlets across India. Established in 2000 under the name Barista, the Indian chain was taken over by Italian coffee products manufacturer Lavazza in 2008. Barista offers menu items like espresso, lattes, cappuccino and various pastries, in addition to basic coffee.

Café Coffee Day: Café Coffee Day offers nearly everything coffee-related, from take-home products and equipment to fully operational stores. Since the opening of the first store in Bangalore in 1996, Café Coffee Day has grown to become India's largest coffee retailer and is now exporting coffee to Europe and the Middle East. Café Coffee Day currently has over 1,500 outlets in 200 cities.

Costa Coffee: The British franchise has been in India since 2005 and has 100 locations.

Café Pascucci: Italian coffee brand Café Pascucci opened its first outlet in Bangalore in 2013. The master franchisee reportedly has plans to set up 60 outlets.

Di Bella Coffee India: The chain is currently operating three outlets with reported plans to open 10 outlets in Mumbai by end of 2014.

Gloria Jean's: Gloria Jean's Coffees, an Australian-owned global specialty coffee company in collaboration with a Dubai-based retail group, Landmark Group, opened its first café in India in 2008. The chain is currently operating 16 outlets.

The Coffee Bean & Tea Leaf: The franchise has 17 outlets across major cities.

Javagreen: Javagreen is an Indian chain of in-store cafes started by the Reliance Group in 2003. It is now operational across eight cities with 40 locations in India.

Mocha: Café Mocha started in Mumbai in December 2001 and now has 20 outlets.

Brewberrys Café: Opened in 2008 in Vadodara, Gujarat and presently has 37 stores across India.

[Coffee N U](#): The first Coffee N U outlet opened in 2008 in Bangalore, they now have a presence in 35 locations all over India.

[Dunkin Donuts](#): In a franchise agreement with Jubilant Food Works, the first Dunkin Donuts opened in May 2012 in New Delhi. The chain has 27 outlets currently in North and Western India.

[BRU World Café](#): Hindustan Unilever has extended its only coffee brand BRU to a café chain, the BRU World Café. The chain currently has six outlets across Mumbai.

[Cuppa Joe](#): Cuppa Joe is an independent café launched by Umbrella Hospitality in April 2012 in Mumbai. The company is reportedly considering expanding.

[Starbucks](#): The American coffee chain entered the Indian market in October 2012 in a joint venture with Tata Global Beverages. Currently the chain has 40 outlets in New Delhi, Mumbai, Pune, and Bangalore.

[McCafe](#): McDonalds India has announced to implement its McCafe brand in certain existing restaurants.

[Qwiky's Coffee](#): Qwiky's Coffee has 22 company-owned outlets concentrated in southern India.

[Coffee World](#): The chain currently has seven outlets across India.

Trade:

An estimated 80 percent of production is exported. Actual exports are virtually equivalent to production, but include 1.0 million bags of coffee that are imported duty free for processing and re-export under a special re-export program. Current marketing year (2013/14) exports are estimated at 5 million 60 kg bags, 160,000 60 kg bags higher from a year ago. Indian Robusta has a good reputation among international buyers and European countries continue to be the major buyers of Indian coffee. Italy, Germany, and Belgium are the top export destinations for Indian coffee. MY 2014/15 exports are forecast at 5.1 million 60 kg bags given the industry's focus on exports, a bigger Robusta crop, and continued demand from European buyers.

Indian Arabica prices have risen 25 percent since start of the harvest. Domestic prices are largely driven by international prices and Arabica trade sources indicate that supplies have been limited globally. Arabica prices are expected to remain firm until the onset of the next harvest as strong foreign demand continues to put pressure on Indian supplies.

Domestic Robusta prices have also remained firm as the domestic crop is lower than anticipated but still cheaper compared to international prices. Through May of 2014, Arabica bean exports are about 30 percent ahead of the year ago pace. However, the gains have been offset by lower than anticipated Robusta coffee bean exports (15 percent lower). Instant coffee exports are up 13 percent during the same period.

The Coffee Board has revised its MY 2012/13 export data, and accordingly FAS Mumbai has lowered the export estimate by 415,000 60 kg bags to reflect the current estimate of 4.8 million 60 kg bags (290,380 metric tons). Indian coffee export data is provided in the table below and reflect the most current trade data.

India's coffee imports are primarily from Vietnam, Indonesia, Uganda, and Kenya for processing and re-export. This coffee enters India free of duty provided it is re-exported under the provisions of a re-export program. Tariffs on imports of coffee are 100 percent and 30 percent for coffee derived products (See Table 3). Given the high tariffs, virtually no coffee is imported for consumption in the domestic market; all imports are for processing and re-export.

Table 2: India's Coffee Exports
(Oct/Sep Marketing Year, Includes Re-Exports)

		MY 2008/09	MY 2009/10	MY 2010/11	MY 2011/12	MY 2012/13*
Sr. No.	Destination	Quantity (MT)	Quantity (MT)	Quantity (MT)	Quantity (MT)	Quantity (MT)
1	Italy	44,037	69,030	74,344	78,010	68,409
2	Germany	11,079	23,459	44,696	25,726	28,295
3	Russia	18,851	30,589	33,489	29,381	19,596
4	Belgium	8,169	11,439	23,186	18,007	17,971
5	Jordan	4,310	7,108	7,425	7,506	10,337
6	Slovenia	3,680	4,601	7,592	13,133	10,243
7	Malaysia	4,031	3,888	4,838	8,328	6,740
8	Spain	6,960	7,914	15,477	7,982	6,421
9	Greece	4,630	4,590	6,230	6,491	5,796
10	USA	2,556	6,177	5,892	6,376	5,781
11	Others	68,780	87,624	112,470	109,318	110,791
	TOTAL	177,083	256,419	335,639	310,258	290,380

*Provisional

Source: Coffee Board of India

Policy:

Funding for most programs designed to facilitate production and exports are tied to India's five-year planning documents. The eleventh five-year plan has concluded and the details of the twelfth five-year plan are being finalized. The programs mentioned below are currently operating and are expected to continue under the twelfth five-year plan.

Production subsidy: The Government of India and the government-run Coffee Board provide various subsidies, mostly to small and marginal coffee producers to increase production and improve quality. The Coffee Board provides subsidies for coffee replanting, water conservation and quality improvement.

Rainfall Insurance Scheme- Coffee (RISC): The Agricultural Insurance Company of India Ltd., a government parastatal, is now providing a unique rainfall insurance product specially designed for the coffee growers of Karnataka, Kerala and Tamil Nadu. RISC's aim is to provide effective risk management aid to those coffee growers likely to be affected by adverse rainfall.

Processing Subsidy: The Coffee Board is providing a subsidy to enhance the quality of coffee products and achieve value addition through the introduction of improved technologies in coffee roasting, grinding and packaging.

Export Incentive Scheme: The Ministry of Commerce has approved the implementation of the "Scheme for the Export Promotion of Coffee" by the Coffee Board. The objective of this subsidy program is to enhance the export of Indian branded and high value coffees to international markets such as the United States, Canada, Australia, New Zealand and Japan. The subsidy is equivalent to Rs. 1-2 per kg (2-4 cents per kg).

The Ministry of Commerce has included coffee in the list of products eligible for the duty drawback scheme and the *Vishesh Krishi and Gram Udyog Yojana* (VKGUY) Special Agriculture and Village Industry Scheme. The objective of these programs is to provide duty free access to foreign coffee subject to processing and re-export of the coffee.

Support for coffee replantation in Karnataka, Tamil Nadu and Kerala: The Government of India's Ministry of Commerce has approved the implementation of the scheme for providing support for coffee replantation. All individual coffee growers irrespective of the size of the holdings are eligible for assistance under this scheme. Arabica coffee plants aged over 30 years and Robusta coffee plants aged over 40 years are eligible. The subsidy is equivalent to Rs.100,000 (\$1,834) per hectare for Arabica and Rs.70,000 per hectare (\$1,284) for Robusta.

[Support for Mechanization of Farm Operations](#): The Government of India's Ministry of Commerce has extended the implementation of the scheme for providing subsidized support to farmers in the procurement of machines to improve labor efficiency and productivity. The scale of subsidy to be provided will be determined based on the total extent of area owned by the individual growers. The scale of subsidy ranges from 25-50 percent of the purchase cost with a ceiling up to Rs. 500,000 (\$8,333) based on size of the producer's planted area.

[Coffee Development Programme in North Eastern Region \(NER\)](#): The Coffee Board has been implementing a comprehensive Coffee Development Program covering the seven northeastern states. The scheme comprises support for area expansion, consolidation of existing holdings, marketing, and nurseries.

Table 3: Import Duty on Coffee and Related Products

H. S. Code	Product description	Basic duty
0901.11	Coffee neither roasted nor decaffeinated	100%
0901.12	Coffee not roasted decaffeinated	100%
0901.21	Coffee roasted not decaffeinated	100%
0901.22	Coffee roasted and decaffeinated	100%
2101.11.10	Instant coffee flavored	30%
2101.11.20	Instant coffee not flavored	30%
2101.11.30	Coffee Aroma	30%
2101.11.90	Others	30%
2101.12.00	Preparations with a basis of extracts, essences or concentrates with a basis of coffee	30%

Table 4: Export Tax/Cess on Coffee and Related Products

S No.	Product description	Basic duty
1	Green	0%
2	Roasted	0%
3	Soluble	0%